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Leveraged Bank Loans Primer

Source: Thomson Reuters LPC, *Leveraged Loans Monthly*, August 2018.

According to FitchRatings, the leveraged bank loan market has doubled in size since 2012. Investor interest in leveraged bank loans has been fueled by expectations of continued interest rate hikes by the Federal Reserve, as increasing interest rates tend to elevate investor interest in floating rate investments, such as leveraged bank loans. CLOs are the largest investor of leveraged bank loans, according to Leveraged Commentary & Data (LCD), an S&P Global Market Intelligence offering.²

Chart 3 shows how the leveraged bank [wingcthe] T.J

characteristics determine the likelihood that the borrower will be able to pay interest and principal on a timely basis. "Loss-given – default" is the portion of credit risk that measures the severity of the loss if the borrower were to default; as leveraged bank loans are typically senior secured, the holders usually have first priority among the company's creditors in the event impairment occurs, and often they are able to renegotiate with the company/issuer before the loan becomes severely impaired.

Liquidity is another risk that could arise when investing in leveraged bank loans. Leveraged bank loans that are liquid, or that trade relatively easily and quickly without impacting the market price, tend to be priced with narrow spreads over the referenced rate. As previously mentioned, pricing leveraged bank loans takes into consideration the bank loan's credit quality, as well as market-based factors. In addition, large loans (those greater than \$200 million in size) are

Key Terminology

Leveraged Bank Loan

A commercial loan to a high-yield company provided by a group of lenders; typically, senior secured debt and at the top of a company's capital structure, they are often floating rate, priced at a spread over a referenced rate.

Broadly Syndicated Loan (BSL)

The largest segment of the leveraged bank loan market; they are made to large companies and syndicated by banks to investors.

Institutional Bank Loan

A type of BSL that is a term loan

Liquidity Risk

Risk that a company may not be able to meet short-term obligations due to not being able to convert short-term assets to cash without impacting the market price.

Market Risk

The risk of loss or devaluation due to a market decline.

Prepayment Risk

The risk that a borrower will repay a loan before its maturity, depriving the lender of future interest payments.

Links To The Most Recently Published Relative NAIC Capital Markets Bureau Reports:

[U.S. Insurance Industry Exposure to Collateralized Loan Obligations Update as of Year-End 2017](#) , September 2018.

[Collateralized Loan Obligations \(CLOs\) Primer](#) , August 2018.

[The Rise in LIBOR](#) , May 2018